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Official Unemployment Continues to Rise Steeply

1.(U) In February 2009, an additional 154,000 people were reported unemployed, for a total of just under 3.5 million. According to the Ministry of Labor, this is the highest number of unemployed since the current calculation method was introduced in 1996. This level is a 4.6 percent increase from the previous month, and the 11th consecutive monthly increase. (Comment: Spain has the highest unemployment rate in the EU - the latest rate published by the EU was 14.4 percent in December. The GOS projects that the unemployment rate will reach 15.9 percent by the end of the year, but independent analysts suggest that the rate will be much higher.) (All Media, 3/3).

GOS Approves Employment/Unemployment Measures

2.(U) After the GOS failed to get agreement from business and labor, the Council of Ministers unilaterally approved on March 6 six measures to encourage employment and increase payments to the unemployed in certain circumstances. Labor Minister Corbacho estimated that the measures would cost 1.5 billion euros. The GOS continued to resist calls from business groups and the OECD to reduce the cost of firing employees. (El Pais, 3/3 and 3/4; Council of Ministers, 3/6)

2008 Home Sales Down 33 Percent; Glut Expected Until 2011-12

3.(U) The number of home sales fell 33 percent in 2008 from the year before, according to the Ministry of Housing. Decreasing sales, combined with an oversupply of new properties, have resulted in approximately 1 million unsold new homes. The glut of new properties will not disappear until the end of 2011 or the middle of 2012, according to the head of Spain's property registrars association. (Comment: This suggests that significant additional adjustment will be necessary before Spain's housing property situation stabilizes. In the meantime, activity in the residential construction sector, which once contributed 10 percent of GDP, has fallen greatly and has contributed to Spain's unemployment problem.) (Expansion, 3/5; ABC, 3/5)

Industrial Production Falls by Over 20 Percent

4.(U) Industrial production fell by 20 percent in January from January 2007, marking the 9th consecutive month in which production was below its level of a year earlier. The fall in auto sales and production played a strong role in this decrease, with manufacturing in Spain of auto parts decreasing more than 50 percent in January year-on-year and February sales falling to a level not seen since 1993. One of the few areas that did not experience a decrease was coal/mineral production. (El Pais, 3/3 and 3/5)

Standard & Poor's Downgrades Banks

5.(SBU) Standard & Poor's lowered the long-term credit rating March 4 on four banks or savings banks, including Caja Madrid, Banco Sabadell, and Banco Popular, each among the country's seven largest financial institutions. Standard & Poor's maintained its rating for Spain's two largest banks, Santander and BBVA, but changed its perspectives on those two from "stable" to "negative." (Comment: So far, Spanish financial institutions have fared relatively better than their counterparts in other countries, and the GOS has touted this as a result of Spain's strict regulations and economic strength - despite problems in other areas of the domestic economy. However, it is clear that Spanish banks, exposed to bad assets related to Spain's domestic housing market downturn, are beginning to feel the effects of the downturn.) (All Media, 3/5)
CHACON